GLOSSARY OF TERMS

REVIEW OF THE UNCONDITIONAL GRANT

Policy Development & Research Branch
Department of Municipal Affairs &
Environment

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BUDGETARY TERMS

Municipal Gross Budget

The gross budget of a municipality includes all general fund expenditures incurred by a municipality in the provision of local services. Typical services include police and fire protection, roads and streets, community planning, waste disposal and recreation.

Non-Tax Revenue

Non-Tax Revenue is revenue which is derived by a municipality from the earnings of public utilities and other revenue-earning properties, income from rental of property or services, fees charged for licences or permits, fine revenues, and sales of services to individuals, other municipalities or Local Service Districts.

Municipal Net Budget

The Municipal Net Budget is gross expenditures less non-tax revenue. It is financed only by local property taxes (Local Warrant) and the Unconditional Grant.

Unconditional Grant

The Unconditional Grant is the grant paid by the Province to municipalities to support municipalities in financing local services. The grant is intended to serve two purposes - to provide a foundation for municipal finances and to equalize municipal fiscal circumstances. Components of the formula include assessment, population, road kilometerage and municipal expenditures.

Local Warrant

The Local Warrant is that part of the net budget which must be financed by the Municipal Real Property Tax. The tax base used in the calculation of the warrant is based on uniform assessments at true market value undertaken by the Province. The local tax rate is based on the net budget less the Unconditional Grant, all divided by the municipal tax base.

ASSESSMENT AND TAXATION TERMS

Assessment

Assessment is the value for taxation purposes placed on properties. Assessment in New Brunswick is based on true market value. Assessments of property provide the basis for the tax base used in establishing property tax rates. The Province's assessment system classifies

properties into three groups: residential owner-occupied, residential non-owner-occupied, non residential.

Municipal Tax Base

The municipal tax base is the valuation at true market value of all real property in a municipality subject to the municipal tax rate.

Tax Rate Denominator

The tax rate denominator, which is used to calculate the residential property tax rate in a municipality, uses the valuation of residential property plus one and one-half times the valuation of non-residential property. This reflects the fact that because there is no business tax in New Brunswick, non-residential real property is taxed at a rate that is one and one-half times the residential rate.

Municipal Real Property Tax Rates

Municipal real property tax rates are established in New Brunswick by municipalities. The property tax rate is based on that part of expenditures which must be financed from own source revenues divided by the tax base. As noted above the municipal property tax rate on non-residential property is one and one-half times the residential rate.

ECONOMIC TERMS

Fiscal Transfers

Fiscal transfers include all transfers of monies from government to individuals, businesses and other levels of government. In the case of transfers from one level of government to another, transfers can be broken into two groups - conditional transfers and unconditional transfers. The basic difference between the two types of transfers is that conditional transfers or grants tend to have conditions attached to the transfer either in terms of expenditures that must be incurred or standards of services that must be provided. Generally unconditional transfers or grants have no "conditions" attached to them.

Equalization

Equalization is the amount of revenue provided to a municipality to ensure it has a sufficient amount of funding to offset the deficiencies in its tax base. The objective is to ensure that each municipality has the ability to provide reasonable standards of services while levying tax rates which are reasonably close to similar jurisdictions.

Fiscal Capacity

Fiscal capacity is a measure of the ability of a municipality to generate revenues from its tax base relative to similar municipalities. Equalized fiscal capacity is a measure of the revenue that a municipality would be able to generate if its tax base were as "rich" as similar municipalities.

Tax Effort

Tax effort is a measure of the degree to which a municipality taxes its residents (to provide services) relative to other municipalities. It can be considered as a form of equalization. As noted above, equalized fiscal capacity measures a municipality's ability to generate revenue from its tax base at average tax rates, tax effort takes into account the degree to which tax rates vary.

Expenditure Effort

Expenditure effort is a measure of the extent to which municipalities spend funds available to them. It allows comparisons of the expenditures (total or by function) of one municipality to others. It is usually based on expenditures per capita. Expenditure effort is not meant to be a measure of the quality, need or cost of services among municipalities.

Population Density

Density measures the size of a municipality's population relative to the geographic area it covers.

Fiscal Need

Fiscal need is a measure of a municipality's requirement for funding relative to other similar municipalities. It can be used to measure the funding required to allow them to provide reasonable standards of services without having to impose unduly high rates of taxation. In simple terms fiscal need can be defined as the relative need of a given municipality to incur expenditures minus its ability to raise revenues.

Tax Burden

Tax Burden measures the amount of taxation borne by a given taxpayer. Estimates of tax burden can be developed for a particular tax or particular type of taxpayer. The burden on one taxpayer, by itself, is not particularly significant; it is more significant when compared to the burdens on other taxpayers and measures of income and wealth.

Standard Expenditures

Standard expenditures is one method of establishing an expenditure base for municipalities to be used in an unconditional grant formula. Generally, the "standard expenditure" for a municipality is an average of expenditures (usually, per capita) of municipalities that are similar in terms of population, land area, economic base, composition of tax base, etc.

Foundation Grant

A foundation grant (or base funding) to municipalities can be considered as a block transfer from the Province which compensates municipalities for those services which they provide instead of the province. It can be based on actual expenditures, standard expenditures, specific types of expenditures, etc.

Equalization Grant

An equalization grant is a grant which compensates municipalities for deficiencies in their tax base relative to similar municipalities.

Equalization Adjustment

An equalization adjustment serves actually the same purpose as an equalization grant. However, an adjustment is made to the foundation grant of all municipalities rather than simply providing a separate special grant to those municipalities whose tax bases are not sufficiently rich to generate the same level of revenues as an "average" municipality.

Grant Pool(s)

A grant pool is the total amount of funding available for the Unconditional Grant either for all municipalities or groups of municipalities.

THE OLD FORMULA

Population

Population is the most recent statistics estimate of the population of municipalities. Statistics Canada data from the 1981 census will be used until the 1986 census results become available in 1987.

Assessment

Assessment is the annual valuation of real property in each municipality undertaken by the Assessment Branch of the Department of Municipal Affairs and Environment.

Kilometerage

Kilometerage in the current formula is the kilometerage of municipal roads and streets plus one-half of the kilometerage of provincially designated highways.

Graded Population Adjustment

Graded Population Adjustment is the ratio applied to the percentage of grant support to allow for higher per capita costs of providing services in municipalities with large populations (greater than 5,000). It is calculated as Municipal Population minus 5,000 divided by 200,000.

Approved Shareable Expenditures

Approved Shareable Expenditures is the expenditure based used in the current formula. It is 1977 municipal net budget adjusted for annual increases and approved expenditures allowed by the Province.

Factor

The "factor" in the current formula is the ratio of Unconditional Grant funding available to municipalities to the amount of funding that would be provided if grant funding were based solely on the formula.

THE PROPOSED FORMULA

Classes of Municipalities

There are four classes of municipalities in the new formula. Each class is comprised of municipalities which have similar characteristics (e.g. net budget, population, area, kilometerage and assessment).

Assessment Component

The assessment component of the formula compares the tax rate denominator per capita of a municipality to the tax rate denominator per capita for the class.

Grant Pool

In the proposed new formula, a grant pool is established annually for each class of municipality rather than simply establishing one pool for all municipalities.

Density Component

The density component of the formula compares tax rate denominator per kilometer of all municipal and provincial roads and streets in the municipality to the average for the class. The density component has a weight of 20 per cent in the formula.

Expenditure Base

The expenditure base in the formula is the expenditure to which the percentage of grant support is applied. The expenditure base in the formula is a municipality's 1986 net budget escalated by the projected annual rate of inflation and adjusted for population changes.

Tax Effort

Tax effort compares the revenue a municipality generates from its tax base relative to what it could generate with an average tax rate for the class. The tax effort, multiplied by the unadjusted Unconditional Grant, adjusted for the amount of grant funding available to the class, is the actual Unconditional Grant for a municipality.

Minimum Tax Rate

In the proposed new Unconditional Grant formula, a minimum municipal tax rate is established. The minimum rate is 65¢ per $100 of assessment, the effective provincial property tax rate on owner-occupied residences in unincorporated areas. As a consequence of this measure, the Unconditional Grant for a municipality whose tax rate would otherwise be less than 65¢ per $100 of assessment is its Net Budget less its Local Warrant at a 65¢ rate.